

TENNESSEE GENERAL ASSEMBLY  
FISCAL REVIEW COMMITTEE



FISCAL NOTE

HB 177 – SB 295

February 11, 2019

**SUMMARY OF BILL:** Requires all interest accruing in the local education agency's (LEA's) dedicated education fund to be returned to the fund balance. Deletes obsolete authorization for the Commissioner of the Department of Education to approve unrestricted use of accumulated funds for FY04-05.

**ESTIMATED FISCAL IMPACT:**

**Other Fiscal Impact – Unknown shifts of use for local funding from non-educational purposes to educational purposes. The extent and timing for any such impacts cannot be determined for they are dependent upon several unknown factors. The total recurring local revenue that may shift is estimated to exceed \$5,354,600.**

Assumptions:

- Tennessee Code Annotated § 49-3-352 establishes within the general fund of each LEA, a special revenue account to be known as the dedicated education fund.
- Tennessee Code Annotated § 49-3-352 requires any remaining fund balance unexpended at the end of a fiscal year to be carried forward into the subsequent fiscal year. Further, all appropriations from all sources intended to fund any function or expense of the LEA shall be appropriated to this account and an affirmative vote by a majority of the membership of the board shall be required to disburse funds from the account. Money in each dedicated education fund shall be invested as provided by law.
- For LEA's that are component units of a county, all money and investments are handled by the County Trustee. Idle funds are invested and the Trustee may pool the funds together to obtain a greater return on investment.
- Based on 90 county audits performed by the Comptroller of the Treasury in 2017, counties lack a common methodology for distributing earned investment income.
- A portion of counties have applied investment income to the debt service funds, which could include education related items such as school buildings, repairs, and renovations. A portion of counties have applied investment income to all county, highway, and school funds; and other counties only applied investment income to the county general fund.

- Under the proposed legislation, interest revenue from an LEA's dedicated education fund will no longer be available for local governments to use for alternative expenditures.
- The total unassigned fund balance reported by LEAs as of June 30, 2018 was \$1,070,927,746.
- Based on information from DOE, a minimum average interest rate of at least 0.5 percent simple annual interest is assumed.
- The total recurring interest revenue for local government is estimated to exceed \$5,354,639 ( $\$1,070,927,746 \times 0.5\%$ ) per year.
- The fiscal impact of this legislation is contingent upon what such interest revenue would be used for by each respective local government in the absence of this legislation relative to the educational uses it would be used for pursuant to this legislation. Assuming 50 percent of such interest revenue, or \$2,677,320, was utilized by LEAs for educational purposes as a direct result of this legislation, when such revenue would be used for other non-educational purposes in the absence of this legislation, there would be a reduction of funding available for other non-educational purposes of the same amount. The extent and timing for any such local impacts are unknown and cannot be reasonably determined.

## **CERTIFICATION:**

The information contained herein is true and correct to the best of my knowledge.



Krista Lee Carsner, Executive Director

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